

EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
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SUSPENSE

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Remarks

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Executive Secretary

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Date

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THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 10/1/85 Number: 317003CA Due By: _____Subject: Economic Policy Council Meeting -- October 2, 1985

1:00 P.M. -- Roosevelt Room

ALL CABINET MEMBERS	Action	FYI	Action	FYI
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

The Economic Policy Council will meet on Wednesday, October 2, at 1:00 P.M. in the Roosevelt Room.

The agenda and background papers for the first and second agenda items are attached. No paper will be distributed for the third agenda item.

RETURN TO:

Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

Don Clarey
 Rick Davis
 Ed Stucky

Associate Director
Office of Cabinet Affairs

THE WHITE HOUSE

WASHINGTON

October 1, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER *EM*

SUBJECT: Agenda and Papers for the October 2 Meeting

The agenda and papers for the October 2 meeting of the Economic Policy Council are attached. The meeting is scheduled for 1:00 p.m. in the Roosevelt Room.

The first agenda item is a review of the farm credit situation. A paper prepared by the Working Group on Agricultural Credit describing conditions in the farm credit system, reviewing recent political events and outlining proposed Administration testimony is attached.

The second agenda item is an update on the farm bill. A memorandum from Secretary Block, which describes the progress of the farm bill is attached.

The final agenda item is a review of the agricultural export enhancement program. No paper has been prepared for distribution.

THE WHITE HOUSE
WASHINGTON

ECONOMIC POLICY COUNCIL

October 2, 1985

Roosevelt Room

AGENDA

1. Review of the Farm Credit Situation
2. Update on the Farm Bill
3. Review of the Agricultural Export Enhancement Program



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

October 1, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: The Working Group on Agricultural Credit Policy
SUBJECT: Farm Credit System Status Report

I. Background

During the last 60 days, operating conditions for the Farm Credit System have continued to weaken. The system has completed internal audits on its Federal Land Bank system which indicate probable charge-offs will be in the \$4-6 billion range. This is in addition to anticipated charge-offs of \$1-1/2 to \$2 billion for the Intermediate Credit Bank (PCAs). The final liquidated losses will be substantially less.

As a result of statements by various system leaders and the media attention to the system's problems, the spreads in the security markets beginning in early September have opened up significantly. These ranged as much as 125 basis points on long-term securities to a current low of 60-80 basis points for 6-month issues. The system's own assessment is that the market is soft for FCS securities. FCS withdrew its 9-month issue for the September 23 sale for both technical and marketing difficulty reasons. The system expects to remain in the short market until some stability in the current environment has developed to provide reassurance to investors. The most significant real risk faced by the FCS in the short term is its capacity to market a substantial rollover of securities during the month of October. It is also significant that 40 percent of the system securities are held by commercial bank interests.

In the longer term, the system's financial position remains reasonably sound, despite a continuing flight of its best members as a result of operational problems. System capital and surpluses total approximately \$11 billion -- \$4.2 billion of this is reported to be liquid -- \$5.5 billion of this amount is in the form of "B" stock held by borrower members.

Beginning in early September, the following circumstances have materially changed the prospects for legislative action.

1. The Farm Credit Administration's Federal Board has directed its Governor to develop a Federal assistance package in legislative form and to negotiate with Congress and the Executive Branch to seek passage during the remaining months of 1985.
2. At its National Directors' meeting in mid-September, the operating system established a special group to develop a Federal assistance package, seek its successful passage in Congress, and attempt to obtain Executive Branch support for the effort.

3. The Independent Bankers Association of America has recommended major Federal intervention in the form of an "Aggie Mae" with substantial allocation of Federal resources through the Farmers Home Administration's revolving fund.
4. The American Bankers Association is expected to vote this week, through its Executive Committee, on a course of action with regard to the agricultural credit situation. They will probably take a more moderate position from that recommended by the Independent Bankers Association of America. A significant number of Members of Congress, led by members of the Agricultural Committees from both parties, are reacting to constituency pressures and are preparing a variety of legislative proposals to deal with the Farm Credit System and general agricultural credit issue.
5. The House Agriculture Committee, through its credit subcommittee, has scheduled substantive hearings beginning October 16. The Committee Chairman requested Frank Naylor, USDA, to represent the Administration.
6. Senator Helms plans to schedule an initial round of hearings on the background of the problem in mid-October. Substantive hearings on legislation in the Senate will be scheduled during the last week of October.
7. Congress expects to take legislative action dealing with the credit issue before the close of 1985.
8. Congressional leadership on a bipartisan basis recognizes the highly technical and complex nature of the farm credit issue. There presently is no legislative vehicle satisfactory to them. Congressional leadership has sought Executive Branch advice on a responsible and reasonable course of action. There is a "window of opportunity" to provide leadership and responsible direction on this matter before the hearing process begins October 16. As has been the case with the general farm legislation, it will be significantly more difficult to manage once certain members begin to politicize and engage in a "bidding war" environment.

II. Recommendations

1. The working group recommends that the Administration use this opportunity to assume an active role with the Congressional leadership as legislative activity commences. This initially should be limited to an assessment of general agricultural credit conditions, the specific difficulties being experienced by the Farm Credit System and a discussion indicating those courses of action which are unacceptable to the Administration. The working group recommends that the Administration not endorse or propose any legislative solution dealing with the Farm Credit System.

2. The general outline for USDA testimony before the Agricultural committees concerning agricultural credit should focus on the following issues:
 - A. A current assessment of the financial stress of agricultural producers based on the latest surveys conducted by the Economic Research Service of the U.S. Department of Agriculture.
 - B. A review of the Administration's analysis of the credit operating conditions and problems faced by the Farm Credit System.
 - C. A review of unacceptable actions and a discussion of the reasons for their unacceptability. The following are the principal alternatives to be reviewed:
 - (1) Net worth certificates.
 - (2) General guarantee of Farm Credit System securities.
 - (3) Aggie Mae.
 - (4) Large scale intervention by the Farmers Home Administration including deep interest rate buydowns.
 - D. A review of actions which the Farm Credit System must take in its own behalf. These include:
 - (1) Substantially restructuring the Farm Credit Administration, including adequate provision for authorities and enforcement powers as a financial regulatory agency comparable to those provided to the Office of the Comptroller of the Currency.
 - (2) Committing an appropriate share of the System's reserves for management of its non-performing loans.
 - (3) Developing a comprehensive internal operating plan to provide for appropriate workout of the System's operating problems.
 - E. A statement of the Administration's willingness to work with the Farm Credit Administration and appropriate Congressional committees on the issue of agricultural credit and a clear indication that the Administration does not propose nor anticipate proposing specific legislative action at this time.
 - F. A statement that the Administration believes the Farm Credit System has the ability to take the actions necessary to resolve substantially their own system's problems.
3. The Economic Policy Council should direct the agricultural working group to monitor and evaluate legislative proposals dealing with agricultural credit, and specifically the Farm Credit System, as they develop. The working group is to provide the Cabinet Council with appropriate updates and recommendations as legislative action develops.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

OCT 1 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: JOHN R. BLOCK *grob*

SUBJECT: FARM BILL UPDATE

Status

The House of Representatives began debate on the 1985 Farm Bill on Friday, September 20. During the floor action, the House defeated two amendments supported by the Administration which would have reformed the sugar and dairy program. The House will likely complete action on the bill Wednesday or Thursday of this week.

The Senate Agriculture Committee reported its bill September 19. The Senate will likely consider their farm bill on the floor during the week of October 14-18.

Background

The House and Senate bills are very similar in most respects:

- Both bills freeze target prices for the major commodities (4 years in the Senate and 5 years in the House) thus helping to insulate production decisions from true market prices which will continue to encourage overproduction.
- Both bills reduce loan rates and tie them to a five year moving average. Additional reductions of up to 20% in loan rates are possible at the discretion of the Secretary of Agriculture.
- Both bills continue the existing \$50,000 payment limitation, thus failing to target federal financial assistance. But, the amount paid under the Findley amendment (reducing loan rates) is not capped.
- Both bills fail to make needed reform in the other commodity programs, such as honey, sugar, wool and mohair, and peanuts.
- The Senate and House bills differ substantially, however, on the dairy program with the House bill continuing current price supports but instituting an anti-consumer dairy diversion program designed to keep consumer prices high by taking cattle out of production. The Senate bill would gradually reduce dairy support prices beginning in 1987.

The consensus on the Hill seems to be converging on the notion that any Farm Bill must continue to support farm income by freezing target prices. The target price freeze contained in these bills substantially increases the cost of our farm programs. Over 5 years, the House bill will cost \$20 billion more than would a program which provides for a 1 year freeze in target prices with a 5 percent reduction each year thereafter. Because target prices are designed for income protection, however, they are the most difficult to attack politically during this time of severe economic stress in the agricultural sector and will make it extremely difficult for the Administration to achieve an acceptable bill out of conference.

With the Farm Bill being the first test of Congressional spending resolve after passage of the 1986 Congression Budget Resolution, the Administration should remain firm in insisting that the Congress live by its promises. Otherwise, a Presidential veto will not be taken seriously in the future, and we will be establishing a dangerous precedent for future spending programs which will be considered by the Congress. In addition, we have farm credit legislation on the horizon -- and this would have budget implications exceeding this farm act!

The threat of a Presidential veto, may force the conferees into making some changes which will reduce the overall cost of the bill. The best we can probably hope for, however, is a one or two year freeze on target prices coupled with the promise of reductions in the future -- promises which will be difficult to enforce if economic conditions in the agricultural sector do not improve. Savings associated with all other potential amendments pale in comparison with the savings that could be achieved by reducing target prices.

Outlook

House - It is possible that the referendum provision may be deleted on the House Floor. It is becoming increasingly clear, however, that major changes in target prices are unlikely to be made.

Senate - It is doubtful that major changes will be made in the Senate. Senators Helms and Lugar are willing to try to accomplish some of the changes necessary to improve the bill, but are unlikely to succeed. Senator Dole is pessimistic about the possibility of achieving meaningful reforms.

In sum, both bills are likely to pass in an unacceptable form and at least \$11-12 billion over the Congressional Budget Resolution over the next three years.